

# IDAHO OUTLOOK

## NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

MAY 2007 VOLUME XXIX NO. 11

Death and taxes. Of these two certainties in life, we feel most comfortable discussing the latter. Be forewarned, however, that our position is controversial. In fact, we dare break with popular orthodoxy. It is easy to prove that while taxation may be certain, taxes are not permanent. Take the Idaho sales tax rate, for example. It was originally 3%, but was changed several times in the 1980s before settling at 5% in April 1986. It was temporarily raised to 6% in May 2003 in response to softening revenues, but it returned to 5% in July 2005. It was then increased to 6% in October 2006 to fund last summer's property tax relief plan.

Idaho's taxes continue to evolve. The most recent changes are summarized in the table below which is taken from the Idaho Division of Financial Management's 2007 *Legislative Session Budget Activities Summary*. The table only includes bills which affect fiscal year 2008 General Fund revenues. This table not only catalogs each bill, but also includes their General Fund fiscal impacts by tax category. For example, House Bill 16, the Internal Revenue Code Conformity legislation, is expected to reduce fiscal year 2008

General Fund revenue from the individual income tax by \$150,000 and corporate income tax another \$100,000. House Bill 16 does not impact any of the other revenue categories. Likewise, the income tax credit for biofuel investment is split between the individual and corporate tax categories.

Three bills each have over a million-dollar impact on the General Fund in fiscal year 2008. Senate Bill 1238 has the largest impact. It doesn't change the cigarette tax rate, but it reduces the amount distributed to the General Fund by \$3.5 million, from an estimated \$10 million to about \$6.5 million. The next largest impact is also in the product tax category. In House Bill 180, a change to the formula used to distribute the Liquor Dispensary's operating margin reduces the amount flowing to the General Fund in fiscal year 2008 by \$2 million. The third change results from House Bill 265. This bill extends the existing sales tax exemption for pollution control equipment to include property that becomes a component, fixture, or improvement to real property. Combined, these changes account for about 95% of the total \$6.8 million

General Fund reduction in fiscal year 2008.

Not all of this winter's bills lowered future General Fund revenues. House Bill 239 and Senate Bill 1221 add a total of \$729,000 to the fiscal year 2008 revenue stream. House Bill 239 closes an unintended loophole in the Idaho College Savings Plan that provided an income tax deduction to participants for simply moving funds in and out of the plan. This move raises revenues by an estimated \$274,000 in fiscal year 2008. Senate Bill 1221 raises General Fund revenue without changing taxes. It initiates a procedural change that increases the projected Treasurer's interest earnings by \$455,000 in fiscal year 2008.

Three other alterations reduce General Fund revenue in the next fiscal year. The largest of these results from a change in the way dental care insurance companies are taxed. It has an estimated fiscal impact of \$240,000. The remaining two changes have a minor impact on the General Fund. They relate to treatment of certain Land Board fees and unclaimed property. Together, their fiscal impact is less than \$40,000.

**FY 2008 General Fund Revenue Fiscal Impacts by Revenue Type**

Bill	Name	Revenue Type					Total
		Ind. Income Tax	Corp. Income Tax	Sales Tax	Product Tax	Misc.	
HB 16	IRC Conformity	(150,000)	(100,000)	0	0	0	(250,000)
HB 25a	Land Board Earnings	0	0	0	0	(25,000)	(25,000)
HB 177	Biofuel Investment	(3,000)	(27,000)	0	0	0	(30,000)
HB 180	Liquor Dispensary Account	0	0	0	(2,000,000)	0	(2,000,000)
HB 190	Dental Insurance Contracts	0	0	0	0	(240,000)	(240,000)
HB 239	College Saving Program	274,000	0	0	0	0	274,000
HB 240	Income Tax Paid to Other States	(500,000)	0	0	0	0	(500,000)
HB 265	Pollution Control Equipment	0	0	(1,050,000)	0	0	(1,050,000)
SB 1098	Unclaimed Property	0	0	0	0	(3,900)	(3,900)
SB 1221	Interest earnings	0	0	0	0	455,000	455,000
SB 1238	Cigarette Tax	0	0	0	(3,465,000)	0	(3,465,000)
<b>Total</b>		<b>(379,000)</b>	<b>(127,000)</b>	<b>(1,050,000)</b>	<b>(5,465,000)</b>	<b>186,100</b>	<b>(6,834,900)</b>

C.L. "BUTCH" OTTER, Governor

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## General Fund Update

As of April 30, 2007

<u>Revenue Source</u>	<u>\$ Millions</u>		
	FY07 Executive Estimate <sup>3</sup>	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,273.6	1,151.9	1,246.2
Corporate Income Tax	208.2	168.2	151.8
Sales Tax	1,084.7	890.2	884.3
Product Taxes <sup>1</sup>	22.2	19.1	19.1
Miscellaneous	117.6	63.3	66.1
<b>TOTAL GENERAL FUND<sup>2</sup></b>	<b>2,706.3</b>	<b>2,292.6</b>	<b>2,367.5</b>

<sup>1</sup> Product Taxes include beer, wine, liquor, tobacco and cigarette taxes  
<sup>2</sup> May not total due to rounding  
<sup>3</sup> Revised Estimate as of January 2007

General Fund revenue exploded in April, coming in \$94.9 million ahead of expectations for the month. This brings fiscal year-to-date General Fund revenue to a level that is \$74.8 million ahead of the predicted amount. This month's strength was almost entirely due to the individual income tax. Sales tax collections were a modest \$2 million higher than expected for the month, but that was largely offset by corporate income tax receipts that were \$1.5 million lower than expected for the month.

Individual income tax once again dominated the month's results, with net collections coming in \$93.9 million higher than expected. This puts the individual income tax \$94.3 million ahead of the fiscal year-to-date expected level. After growing

14.8% in FY 2005 and 17.5% in FY 2006, this revenue category was expected to slow to a much more modest 4.7% growth rate in the current fiscal year. As of the end of April, FY 2007 individual income tax growth for the fiscal year to date is running at 16.5%. The bulk of the strength is due to filing collections, which are up \$80.4 million for the month and \$84.1 million for the fiscal year to date.

Corporate income tax revenue dipped in April, coming in \$1.5 million below the target for the month. This takes the fiscal year-to-date collections to a level \$16.4 million below the predicted amount. For the month, estimated payments were \$3.0 million lower than expected, but refunds were \$1.5 million lower than expected and

offset half of the estimated payment weakness.

Sales tax collections eked out a modest gain in April, coming in \$2.0 million higher than expected. That brought this revenue category to a level that is now \$5.9 million below expectations for the fiscal year to date. This makes it likely that sales tax will come in below the forecast for FY 2007, but not by a large amount.

Product taxes continue to track on target, while miscellaneous revenue gained \$0.4 million in April based on strong interest earnings. This category is now \$2.7 million ahead of expectations due to strong unclaimed property receipts and interest earnings, partially offset by weakness in insurance premium tax and kilowatt hour tax collections.